Annual Report 1974 Gibraltar Mines Ltd. (N.P.L.)

Gibraltar Mines Ltd. (N.P.L.)

DIRECTORS

*J. DOUGLAS LITTLE, Vancouver, B.C.
Executive Vice-President,
Placer Development Limited

*ROBERT A. MATTHEWS, Vancouver, B.C.
Manager,
Ram Investments Ltd.

THOMAS H. McCLELLAND, Vancouver, B.C.
President & Chief Executive Officer,
Placer Development Limited

JAMES L. McPHERSON, Vancouver, B.C.
Vice-President, Finance & Administration,
Placer Development Limited

EDGAR A. SCHOLZ, Vancouver, B.C.
Vice-President, Exploration,
Placer Development Limited

*ARTHUR K. POUSSETTE, Vancouver, B.C.
Executive Vice-President, Vancouver,
Canadian Imperial Bank of Commerce

*Member of the Audit Committee

OFFICERS

THOMAS H.McCLELLAND, *President*
J. DOUGLAS LITTLE, *Vice-President*
JAMES L. McPHERSON, *Vice-President, Finance*
CHARLES L. PILLAR, *Vice-President, Operations*
JOHN M. McCONVILLE, *Secretary*
ROBERT A. WATTS, *Treasurer*
JOHN RACICH, *Comptroller*
JOHN A. ECKERSLEY, *Assistant Secretary*
HOWARD F. GOUGEON, *Assistant Treasurer*

DEPARTMENT HEADS

J. M. GIBBS, *Mine Manager*
J. C. O'ROURKE, *Assistant Mine Manager*
W. D. DIMENT, *Mine Superintendent*
T. G. WHITE, *Mill Superintendent*
W. A. TRYTHALL, *Chief Engineer*
A. K. CROTEAU, *Plant Superintendent*
G. D. BACH, *Chief Accountant*
G. G. BELL, *Employee Relations Superintendent*

VALUATION DAY

On December 22, 1971, established as valuation day by the Department of National Revenue, the price of the Company's Common Shares was $4.70 per share.

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held at 11:00 a.m. on Thursday, March 20, 1975 in the Social Suite East, Hotel Vancouver, 900 West Georgia Street, Vancouver, B.C.

OFFICES

Head office:
700 Burrard Building,
1030 West Georgia Street,
Vancouver, B.C. V6E 3A8

Mine office:
P.O. Box 130,
McLeese Lake, B.C. V0L 1P0

AUDITORS

Price Waterhouse & Co.,
Chartered Accountants, Vancouver, B.C.

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada,
Vancouver and Toronto, Canada

BANKERS

Canadian Imperial Bank of Commerce
The Bank of Nova Scotia

LISTINGS

Toronto Stock Exchange
Vancouver Stock Exchange

Cover photo

The economics of a mine such as Gibraltar are dependent on the ability to move a large tonnage of ore and waste each day. Cover photo emphasizes the role of heavy equipment in the Company's operations.

Report of Proceedings

The Annual General Meeting of Shareholders was held on March 29, 1973 in the Social Suite East, Hotel Vancouver, Vancouver, B.C. The President, Mr. T. H. McClelland, presided.

There were 8,767,498 shares, equal to 76.8% of the total 11,411,469 common shares outstanding, represented in person or by proxy.

All resolutions approving and adopting the items of business set out in the Notice of Meeting were passed.

President's Remarks

"Ladies and Gentlemen:

The role of business in British Columbia is undergoing a change. A new set of rules is being written for the province's basic industries and I will presently direct my remarks to some of the implications of this fact. For the moment, however, I will comment specifically on the recent operations of Gibraltar.

During 1972 an average of 39,500 tons of ore was processed each day, making Gibraltar one of the largest base metal mines in Canada in terms of daily concentrator throughput. In January and February of this year, the average daily throughput has been 41,500 tons and we expect this rate to be maintained through 1973. Total concentrate production during this two-month period has been 35,000 short dry tons, containing 21 million pounds of copper. Two shipments totalling 43,000 tons of copper concentrate have been made to Japan since January 1st.

Financial results for the first quarter of 1973 will be available near the end of April.

On March 23 a further payment of $1,995,000 was made on the bank loan to comply with the requirement that total payments equal 75% of the 1972 net cash flow. Total payments to date are $12 million and the balance outstanding on the loan is now $51.9 million.

The average copper price received by your Company in 1972 was less than 47 cents per pound of metal in concentrate. The price has since increased significantly and is now in the 60 to 70 cents per pound range. The price rise has resulted, in part, from an increasing rate of copper consumption together with disruptions in the supply of copper from Chile and Zambia. The price quoted today on the London Metal Exchange is 69 cents per pound and we believe that higher prices in this range will be maintained during 1973. It should be noted that wide price fluctuations are possible. Earnings per share on a yearly basis improve by approximately eight cents for each one cent rise in the price of copper. This improvement will be evident in the first quarter earnings and will have a significant effect on the year's results.

Regarding the changing role of business in British Columbia, the provincial government is proposing a variety of legislation affecting the mining industry. Of direct concern to Gibraltar is the 20% increase in the provincial corporation income tax, the imposition of a 1/10 of 1% capital tax and a royalty on minerals at a rate yet to be announced. Depending on the level at which this royalty would be applied, it could, at a minimum, reduce the profitability of existing mines and affect the feasibility of properties under exploration. On the other hand, if it is imposed without regard for the economics of the industry, it could cause the closure of a number of operating mines and discourage development of new properties.

On the subject of mine development, I would like to draw your attention to some figures which were set out in the annual report. Your Company's mine was placed into production at a total cost of over $63,000,000, most of which was spent in Canada and a large part of that in British Columbia. One thousand jobs were created during the 11-month construction period at a time of high unemployment. The mine now employs approximately 440 persons on a year-round basis and pays its employees an average wage of $10,250 per year, versus a provincial average of $8,550 in 1972. The total annual payroll is $4,500,000, from which the federal and provincial governments receive approximately $1,100,000 in personal income taxes. The mine's yearly purchases of utilities, goods and services will exceed $22,000,000 and support an estimated 2,500 additional jobs in this country's secondary industries. If the families of persons directly or indirectly employed by Gibraltar's operations are considered, the mine supports close to 10,000 Canadians. These are the benefits of just one new mine. There are other properties which would be developed, given a reasonable economic and political climate. It should be remembered that the mining industry exists to supply a growing demand for metal and not just for its own benefit.

There are other indications of a very different approach to mining which are evident in the recent proposals to amend the Mineral Act. By far the most significant and fundamental is the requirement that a production lease be issued before an orebody can be developed into a mine. The legislation lays down no ground rules on which these leases will be issued, but leaves this entirely to the discretion of the government. Its standard of economic and technical feasibility is to be substituted for that of the industry and those who provide the financing of these ventures. Those contemplating investment in British Columbia mineral exploration must now assess the additional risks imposed through government legislation. The possibility of a negative decision on a production lease significantly increases the risks in a business already noted for high risks. Outside expert opinions on the feasibility of Gibraltar were by no means unanimous, and yet it has been de-

veloped into successful production. Would this have happened if one of those outside expert opinions had been from the provincial government?

During less than six months in office, the new government has introduced much legislation directly or indirectly affecting the mining industry. In addition to those areas already mentioned, exploration by individuals and small companies is discouraged through the increased cost of work requirements on mineral claims; there is uncertainty regarding the government's intentions to participate in mining, and even the Land Commission Act may restrict mineral exploration and development in certain areas of the province.

This legislation is intended to benefit British Columbians, but may well achieve the opposite effect. Considering the stakes in terms of employment and economic growth, I suggest that there is a need for caution and deliberation on the part of the government. The potential for damage in hasty, ill-considered legislation is enormous. But, under fair laws, a vigorous industrial base can provide the taxes, develop and support secondary industries and create the job opportunities which this government wants."

DIRECTORS

J. Douglas Little

Robert A. Matthews

Thomas H. McClelland

James L. McPherson

Edgar A. Scholz

John E. R. Wood

OFFICERS

Thomas H. McClelland,
President

J. Douglas Little,
Vice-President

James L. McPherson,
Vice-President, Finance

Charles L. Pillar,
Vice-President, Operations

John M. McConville,
Secretary

Robert A. Watts,
Treasurer

J. Racich,
Comptroller

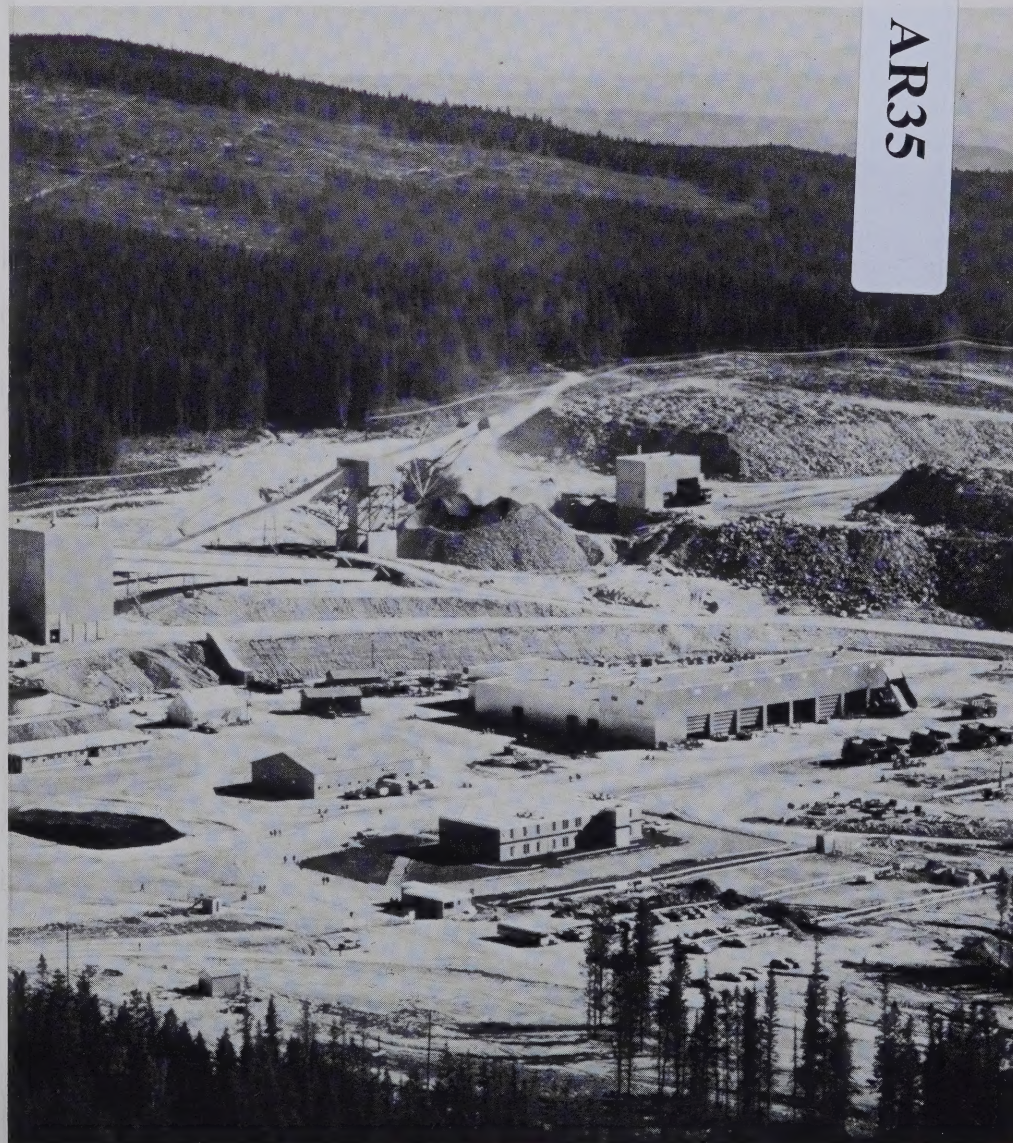
Donald Hallam,
Assistant Secretary

File

GIBRALTAR MINES LTD. (N.P.L.)

Report of Proceedings and Address to Shareholders

At the Annual General Meeting March 29, 1973



Interim Statement of Changes in Financial Position

For the six months ended June 30, 1973

(with comparative figures for the six months ended June 30, 1972)

	Six Months Ended June 30, 1973	1972
Financial resources were provided by:		
Net earnings	$20,959,000	$ 2,516,000
Add:		
Charges to operations not involving an outlay of working capital –		
Depreciation	2,492,000	1,049,000
Depletion and amortization of preproduction, exploration and development expenses	281,000	121,000
Other	303,000	—
Total from operations	24,035,000	3,686,000
Bank loan	—	6,872,000
	24,035,000	10,558,000
Financial resources were used for:		
Reduction of long-term liability	18,231,000	187,000
Net additions to fixed assets	1,221,000	7,821,000
Preproduction, exploration and development expenditures	—	2,314,000
Recoverable deposits and others	(48,000)	103,000
	19,404,000	10,425,000
Increase in working capital	4,631,000	133,000
Working capital deficiency – beginning of period	9,924,000	7,087,000
Working capital deficiency – end of period	$ 5,293,000	$ 6,954,000

(The above figures are unaudited and subject to year-end adjustments)

Gibraltar Mines Ltd. (N.P.L.)

Second Interim Report '73

To June 30, 1973

TO THE SHAREHOLDERS
GIBRALTAR MINES LTD. (N.P.L.):

Net earnings for the quarter ended June 30, 1973 were $14,219,000 or $1.25 per share. During the six-month period ended June 30, 1973, net earnings were $20,959,000 or $1.84 per share. For the same six-month period in 1972, earnings of $2,516,000 or $0.22 per share are not comparable as such period covered only the initial three months of operations.

These increased earnings reflect the shipment of a greater quantity of concentrate and the significantly higher copper prices which have prevailed since the beginning of 1973. The average price per pound of copper received on shipments made during the quarter was U.S. 78.94¢ compared to U.S. 47.77¢ during the same period in 1972.

A scheduled payment of $2,500,000 and additional payments totalling $13,000,000 were made on the bank loan during the quarter, leaving a balance outstanding of $36,400,000.

Concentrate inventory at June 30, 1973 was 15,000 tons compared to 25,500 tons at March 31, 1973.

President

Vancouver, B.C.
July 12, 1973.

Interim Statement of Earnings

For the quarter and the six months ended June 30, 1973
(with comparative figures for the six months ended June 30, 1972)

	Three Months Ended June 30, 1973	Six Months Ended June 30, 1973	Six Months Ended June 30, 1972*
Revenue:			
Concentrate sales	$25,808,000	$40,235,000	$ 6,894,000
Interest and other income	45,000	58,000	22,000
	25,853,000	40,293,000	6,916,000
Expense:			
Cost of concentrate sold (includes a provision for depreciation of $1,256,000, $2,492,000 and $1,049,000 respectively for the three periods shown)	8,285,000	13,587,000	3,033,000
Administration and general expenses	149,000	277,000	117,000
Foreign exchange, (gain) loss	(44,000)	30,000	(9,000)
Depletion and amortization of preproduction, exploration and development expenses	141,000	281,000	121,000
Interest expense	1,021,000	2,085,000	1,138,000
B.C. mining tax	2,082,000	3,074,000	—
	11,634,000	19,334,000	4,400,000
Net earnings	$14,219,000	$20,959,000	$ 2,516,000
Earnings per share (11,411,469 shares outstanding)	$1.25	$1.84	$0.22

(The above figures are unaudited and subject to year-end adjustments)

*Operations commenced April 1, 1972

Production Statistics

	Three Months Ended June 30, 1973	Six Months Ended June 30, 1973	Six Months Ended June 30, 1972*
Ore milled—tons	3,734,200	7,475,500	3,569,100
Average daily throughput—tons	41,000	41,300	39,200
Grade—% copper	0.50	0.51	0.45
Concentrate produced—tons	53,000	109,000	41,800
Concentrate grade—% copper	29.53	29.28	30.70
Recovery of copper—%	84.70	84.60	80.67
Copper produced—pounds	31,279,400	63,814,700	25,672,700

Sales Statistics

	Three Months Ended June 30, 1973	Six Months Ended June 30, 1973	Six Months Ended June 30, 1972*
Average price per pound of copper—U.S. ¢	78.94	74.31	47.77
Concentrate sold—tons	63,200	106,000	28,500

(tons—short dry tons)

Highlights

FINANCIAL	1974	1973
Gross revenue	$62,289,426	$96,865,385
Total expense	$44,987,322	$44,356,003
Net earnings	$17,302,104	$52,509,382
Net earnings per share	$ 1.52	$ 4.60
Dividends	$11,411,469	—
Dividends per share	$ 1.00	—
Common shares outstanding	11,411,469	11,411,469
Number of shareholders of record	2,522	2,144
Working capital	$12,228,615	$ 923,112
PRODUCTION		
Ore milled — tons	13,397,300	15,082,200
Average daily throughput — tons	38,300	41,300
Average grade of ore milled — % copper	0.40	0.48
Recovery of copper — %	84.29	83.40
Concentrate produced — tons	166,800	212,400
Average grade of concentrate — % copper	27.06	28.67
Copper in concentrate — pounds	90,246,500	121,800,500
Molybdenum in concentrate — pounds	745,700	493,500
Number of employees	632	551
MARKETING		
Copper concentrate shipped — tons	150,400	217,700
Average L.M.E. price per pound of copper (U.S.¢)	93.39¢	80.76¢

(Tons = short dry tons)

Report to Shareholders

The Board of Directors is pleased to present your Company's Annual Report for the year ended December 31, 1974.

Financial

Net earnings in 1974 were $17,302,104 or $1.52 per share after provision of $5,297,706 for depreciation, amortization and depletion and $8,866,400 for royalties and income and mining taxes. In 1973 net earnings were $52,509,382 or $4.60 per share.

Earnings in 1974 were lower in comparison to the previous year primarily because of reduced production of copper concentrate resulting from mining lower-grade ore and reduced mill throughput. Other significant factors were higher operating costs, increased income taxes and new provincial royalties.

Taxes and royalties

Earnings of Gibraltar became subject to federal and provincial income taxes after December 31, 1973 when the income tax-exempt period formerly granted to new mines was terminated. The full effect of income taxes was not imposed in 1974, however, as a result of allowances carried forward from prior years.

The Company also became subject to royalties in 1974 following passage of the British Columbia Mineral Royalties Act (Bill 31). This Act applies a basic royalty of 2½% from January 1, 1974 (increasing to 5% from January 1, 1975) on the sales value of minerals after smelter deductions and transportation costs. In addition, it imposes an incremental or super royalty of 50% on that part of the sales proceeds above 120% of a value set by the government. In 1974 the super royalty would have applied to Gibraltar's sales above a copper price of approximately 88¢ per pound and a molydenum price of approximately $2.24 per pound. Since the average prices received by Gibraltar in 1974 were below these effective levels, no super royalties were paid.

Payment of the basic royalty was made under protest by the companies subject to the Mineral Royalties Act, including Gibraltar. An action to test the validity of the Act and the Mineral Land Tax Act has been commenced by 18 companies with operating mines in the province.

The federal government confirmed in its budget of November 18, 1974 that provincial royalties will not be recognized as expenses in the calculation of income taxes. The effect of this is that federal income tax must be paid on revenue which is not, in fact, retained by the Company. The automatic one-third depletion allowance was also withdrawn and an earned depletion allowance on specified exploration and development expenditures was instituted from May 6, 1974. At December 31, 1974 your Company had available to it approximately $42,000,000 in this class of expenditure which provides $14,000,000 of earned depletion for application to taxable income in 1975 and future years.

Total provincial income and mining taxes and royalties in 1974 were $5,976,000 and federal income taxes were $2,890,000. A further estimated $1,200.000 in sales taxes was paid on purchases of mine supplies.

Dividends, share prices and capital expenditures

Dividends commenced in 1974 and amounted to $1.00 per share in four quarterly payments of 25¢ per share. Total dividend disbursement was $11,411,469.

Capital expenditures in 1974 amounted to $5,156,000 and estimated capital expenditures for 1975 are $1,731,000. An additional amount, estimated at $1,000,000, will be required for overburden removal on the Granite Lake and Pollyanna Pits in 1975.

Higher costs were evident in most areas of the mine's operation during the year. Costs for labour, grinding media, explosives, chemicals and reagents rose, on the average, by 35%.

General price-level restatements

The worldwide increase in inflation rates has resulted in recent proposals by various accounting bodies to issue, in addition to the conventional financial statements, financial results that will take into account the changes in the purchasing power of money. By applying the guidelines of the Canadian Institute of Chartered Accountants, the restated earnings of Gibraltar in terms of December 31, 1974 dollars are $16,787,000 in 1974 and $63,525,000 in 1973, instead of $17,302,000 and $52,509,000 respectively as reported by the audited statements.

The difference has resulted primarily from applying the effects of a dilution of general purchasing power of the Canadian dollar of approximately 25% in the two years from January 1, 1973 to December 31, 1974. The retention of fixed dollar assets such as cash and accounts receivable is recognized as a loss since inflation reduces their purchasing power during the period held. Conversely, the retention of fixed dollar liabilities is treated as a gain as was the case with the Company's original development loan during 1973.

Copper concentrate is hauled in 25-ton trailers from the mine to rail loading facilities on the British Columbia Railway.

Marketing

All copper concentrate shipped in 1974 was delivered to Nippon Mining Company Limited under a sales contract effective to December 31, 1981, which is based on London Metal Exchange (L.M.E.) quotations. The average price received for the payable copper content in concentrate before deducting smelting, refining and treatment charges was U.S. 84.62¢ per pound in 1974 (1973 - U.S. 87.36¢ per pound).

Deliveries of concentrate were interrupted for 11 days in the second quarter by a wildcat strike at the mine. A strike on the British Columbia Railway commenced on November 25, 1974 and deliveries were again disrupted. This strike was not settled until January 7, 1975 so that inventory at year-end had increased to 21,600 tons (1973 - 5,900 tons).

The average price of copper on the L.M.E. rose to a peak of U.S. $1.52 per pound in April but deteriorated through the third quarter to a low of U.S. 56¢ per pound at year-end. The sharp downturn in copper demand and prices reflected a worldwide slowing of industrial activity while production capacity at both the mining and smelting levels exceeded demand in the second half of 1974.

Internationally, there are indications that the production and export of copper concentrates are being reduced in order to stabilize world markets. Some Canadian copper mines have halted or curtailed production. Others, including Gibraltar, were requested by Japanese custom smelters to reduce shipments by at least 15% of 1974 levels. Ultimately, the extent and duration of such cutbacks will be dependent on a return to normal consumption patterns. In the meantime, further adjustments may be necessary in the amount

of copper produced by Gibraltar and will result in layoffs among operating personnel. No significant expansion in copper demand is anticipated during 1975 and the present price level is, therefore, not expected to change significantly.

Deliveries of molybdenum contained in concentrate amounted to 282,000 pounds during the year (1973 - 493,500 pounds).

Mine operations

Production of ore during 1974 was 13,273,000 tons (1973 - 15,225,000 tons), while low-grade, waste and overburden equalled 18,112,000 tons (1973 - 14,111,000 tons). The average daily tonnage of ore and waste mined was 90,708 tons (1973 - 80,373 tons) at a stripping ratio of 1:1.36.

Initial mining in the Gibraltar East Pit through 1972 and 1973 was in above-average-grade ore zones, resulting in annual copper production in excess of the mine's long-term expectations. As these high-grade zones were mined, development proceeded in 1974 on ore closer to the mine's reserve grade of 0.366% copper.

Mining in Stage 1 of the Gibraltar East Pit was completed in August by which time development of the Granite Lake Pit was sufficiently advanced to supply the mill's ore requirements. The transfer of operations was carried out with no interruption in ore production. Removal of silt and overburden from the eastern portion of the Granite Lake Pit will continue into 1975 while stripping in the Pollyanna Pit commenced in 1974 and will continue through the current year.

Ore supplied to the mill was periodically below the required tonnage in the first half due to reduced equipment availability and longer haulage distances. The problem was overcome in the second half when new equipment became operative and mining from the Granite Lake Pit commenced.

Additional equipment consisting of one drill, one shovel and four trucks was placed in service during the year. Engineering projects included completion of maintenance shop expansion, installation of a second line to the tailing pond and the start of construction on an electrical power distribution system to the new Granite Lake Pit and the future Pollyanna Pit. Tests for the design and installation of a drainage system in both of these areas were completed.

Concentrator

Copper concentrate production in 1974 was 166,800 tons (1973 - 212,400 tons) containing 90,246,500 pounds of copper (1973 - 121,800,500 pounds). Contained molybdenum production was 745,700 pounds (1973 - 493,500 pounds). The concentrator treated a total of 13,397,000 tons of ore (1973 - 15,082,000 tons) at an average grade of 0.40% copper (1973 - 0.48%) and operated 90.2% of available time. Recovery of copper was 84.3% including both sulphide and oxide (1973 - 83.4%).

The average daily throughput, at 38,300 tons (1973 - 41,300 tons), declined as the result of reduced production of ore in the first half and increased grinding required for harder ore from the Granite Lake Pit in the second half.

Ore reserves

At December 31, 1974 mineable ore reserves at a strip ratio of 1:2.15 and a cut-off grade of 0.25% copper were estimated at:

	Tons	% Copper
Gibraltar East	115,000,000	0.35
Granite Lake	114,000,000	0.36
Pollyanna	81,000,000	0.36
Gibraltar West	9,000,000	0.40
Total	319,000,000	0.36

The above estimates do not include approximately 14,000,000 tons of ore on leases covering part of the Granite Lake zone. These leases are owned by Cuisson Lake Mines Ltd., in which Gibraltar has a 40.53% interest.

Employee relations

A collective agreement, effective to February 29, 1976, was signed on March 10, 1974 with the United Steelworkers of America. It established base wage rates of $4.50 per hour for labourers and $6.20 per hour for tradesmen.

A wildcat strike disrupted production at the mine from May 5 to May 17, 1974. The union, alleging unsafe working conditions, established picket lines at the mine instead of following the grievance procedure provided in the labour agreement. Limited production was maintained during the strike. A production loss of

approximately 3,000,000 pounds of copper was sustained through this action and legal proceedings to recover damages have been commenced against the local union.

On December 31, 1974 the number of employees was 632. The average annual income per employee, including benefits, was $14,800 (1973 - $12,525) for a total payroll, including benefits, of $8,548,000 (1973 - $6,536,000). The average monthly employee turnover at 8.5%, remained a problem and the mine continued to experience a shortage of personnel in the trade and operating categories. Similar problems have affected much of British Columbia's industrial sector, including operations close to the major population centres.

The programme of housing assistance to employees in the form of second mortgages on serviced building lots was continued through the year. After an employee completes five years employment with the mine, these mortgages are cancelled. Since the plan was introduced in 1971, 137 employees have acquired homes under the plan and 90 remained in the Company's employ at the end of 1974. Rental accommodation in the form of townhouses and trailer parks was available on a subsidized basis and at year-end was occupied by 59 families while 135 men occupied single quarters at the mine.

The environment and community relations

Areas adjacent to the mine which had been disturbed during construction were seeded in 1971 and 1972 and new growth on these areas has generally been successful. Numerous individuals and groups visited the mine through 1974 and guided tours for the general public were conducted each Wednesday during the summer months. Scholarship assistance was provided to two Williams Lake students and two vocational school students in Vancouver.

Acknowledgement

Mine Manager J. M. Gibbs and mine personnel completed the transfer of operations to the new open pit efficiently despite unique problems posed in the draining of a small lake and removal of silt before ore production could commence. The Board of Directors gratefully acknowledges their efforts.

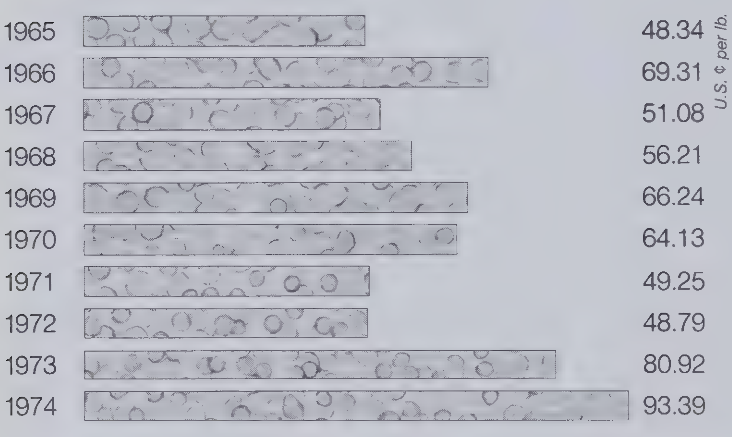
On behalf of the Board,

President

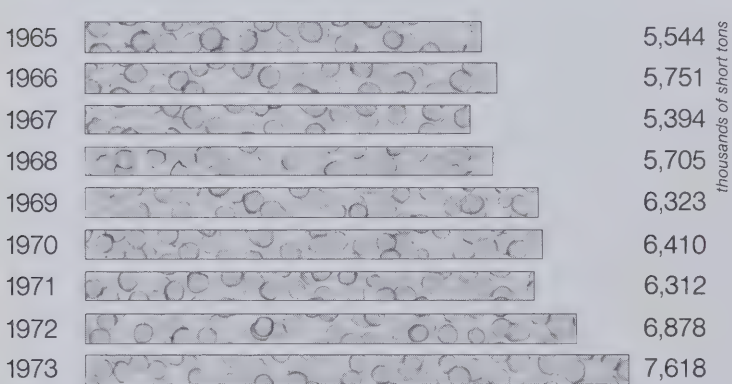
Vancouver, B.C.
January 22, 1975

YEARLY AVERAGE COPPER PRICES

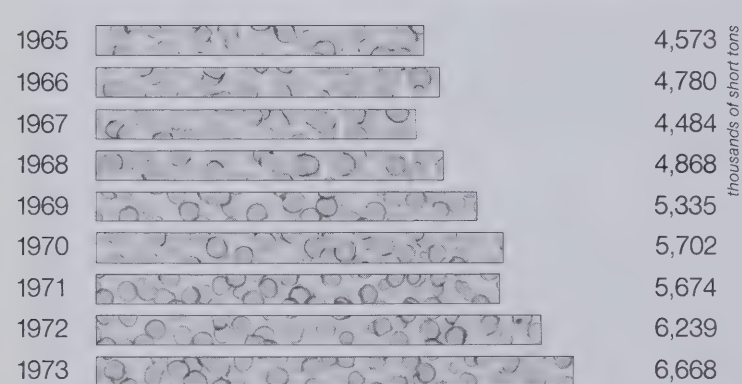
(L.M.E. Copper Wire Bar Cash Settlement Prices)



WESTERN BLOC REFINED COPPER CONSUMPTION



WESTERN BLOC COPPER PRODUCTION



Statement of Earnings

	Year Ended December 31, 1974	1973
REVENUES:		
Concentrate sales	$61,367,366	$96,836,36
Interest and other income	922,060	29,02
	62,289,426	96,865,38
EXPENSES:		
Cost of sales	30,140,592	26,518,37
Depreciation	4,735,830	4,954,32
Provincial mineral royalties (Note 4)	1,306,000	—
Amortization	395,976	960,58
Depletion	165,900	165,90
General and administrative	682,624	563,55
Interest on long-term debt	—	3,394,69
	37,426,922	36,557,42
Earnings before taxes	24,862,504	60,307,95
Income and mining taxes (Note 3)	7,560,400	7,798,57
Net earnings	$17,302,104	$52,509,38
Earnings per share	$ 1.52	$ 4.6

Statement of Retained Earnings

	Year Ended December 31, 1974	1973
Retained earnings, beginning of year	$60,687,302	$ 8,177,92
Net earnings	17,302,104	52,509,38
	77,989,406	60,687,30
Dividends — $1.00 per share	11,411,469	—
Retained earnings, end of year	$66,577,937	$60,687,30

Balance Sheet

Assets	December 31, 1974	1973
CURRENT ASSETS:		
Cash, including time deposits	$ 5,691,031	$ 5,412,985
Marketable securities, at cost which approximates market value	1,130,033	162,207
Accounts receivable	1,156,933	1,995,286
Accounts receivable from associated companies	729,484	37,953
Concentrate inventories	4,357,222	750,967
Materials and supplies	5,411,958	2,908,683
	18,476,661	11,268,081
DEPOSITS AND MORTGAGES RECEIVABLE	975,223	967,849
PROPERTY, PLANT AND EQUIPMENT:		
Plant, buildings and equipment (Note 2)	54,359,416	53,933,995
Mining properties, at cost less accumulated depletion of $456,230 (1973 - $290,329)	3,112,494	3,283,181
Deferred exploration, development and preproduction costs, less amortization of $1,088,925 (1973 - $692,949)	6,830,495	7,226,471
	64,302,405	64,443,647
	$83,754,289	$76,679,577

Approved on behalf of the Board

T. H. McCLELLAND, *Director*

J. L. McPHERSON, *Director*

Gibraltar Mines Ltd. (N.P.L.)

Liabilities and Shareholders' Equity

		December 31, 1974	1973
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities		$ 4,901,744	$ 6,592,21
Income and mining taxes payable (Note 3)		1,346,302	3,752,75
		6,248,046	10,344,96
DEFERRED INCOME AND MINING TAXES (Note 3)		5,281,000	—
SHAREHOLDERS' EQUITY:			
Share capital —			
Authorized —			
12,000,000 common shares of 50¢ par value each	$6,000,000		
Issued and fully paid —			
11,411,469		5,647,306	5,647,30
Retained earnings		66,577,937	60,687,30
		72,225,243	66,334,60
		$83,754,289	$76,679,57

Statement of Changes in Financial Position

	Year Ended December 31, 1974	1973
FINANCIAL RESOURCES WERE PROVIDED BY:		
Net earnings	$17,302,104	$52,509,382
Charges to operations not involving an outlay of working capital —		
Depreciation	4,735,830	4,954,327
Amortization and depletion	561,876	1,126,483
Deferred income and mining taxes	5,281,000	—
Loss on disposal of non-current assets	—	98,254
Total from operations	27,880,810	58,688,446
Other	(8,151)	166,570
	27,872,659	58,855,016
FINANCIAL RESOURCES WERE USED FOR:		
Dividends	11,411,469	—
Reduction of long-term debt	—	44,622,265
Additions to plant, buildings and equipment	5,155,687	3,385,939
	16,567,156	48,008,204
Increase in working capital	11,305,503	10,846,812
Working capital (deficiency), beginning of year	923,112	(9,923,700)
Working capital, end of year	$12,228,615	$ 923,112
ANALYSIS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets —		
Cash, including time deposits	$ 278,046	$ 5,098,968
Marketable securities	967,826	162,207
Accounts receivable	(838,353)	(1,182,462)
Accounts receivable from associated companies	691,531	37,953
Concentrate inventories	3,606,255	(722,428)
Materials and supplies	2,503,275	600,140
	7,208,580	3,994,378
Increase (decrease) in current liabilities —		
Accounts payable and accrued liabilities	(1,690,469)	1,780,754
Income and mining taxes payable	(2,406,454)	3,548,984
Long-term debt due within one year	—	(12,182,172)
	(4,096,923)	(6,852,434)
Increase in working capital	$11,305,503	$10,846,812

Notes to Financial Statements *December 31, 1974*

1 — ACCOUNTING POLICIES:

Foreign currencies —
Amounts in foreign currencies are translated into Canadian dollars. Current assets and current liabilities, where applicable, are translated at year-end rates. Non-current assets, revenues and expenses are translated at the rates on the dates of the relevant transactions.

Inventory valuation —
Concentrate is valued at the lower of cost and net realizable value. Materials and supplies are valued at the lower of moving average cost and replacement cost.

Depreciation, depletion and amortization —
Depreciation is provided over the estimated useful lives of the assets on the following bases:

(a) buildings and machinery on a straight-line basis at the rate of 5% and

(b) mobile equipment on a diminishing balance basis at rates of 15% to 36%.

Depletion of mining properties and amortization of deferred exploration, development and preproduction costs are provided on a straight-line basis over the estimated life of the mine or twenty years, whichever is shorter.

2 — PLANT, BUILDINGS AND EQUIPMENT:

	December 31, 1974	1973
Cost —		
Buildings and machinery	$51,822,595	$50,347,386
Mobile equipment	15,332,426	11,859,325
	67,155,021	62,206,711
Accumulated depreciation —		
Buildings and machinery	6,836,604	4,318,171
Mobile equipment	5,959,001	3,954,545
	12,795,605	8,272,716
	$54,359,416	$53,933,995

3 — INCOME AND MINING TAXES:

	Year ended December 31, 1974	1973
Current —		
Income tax	$ 1,047,400	$ —
Mining tax	1,232,000	7,798,574
	2,279,400	7,798,574
Deferred —		
Income tax	3,102,000	—
Mining tax	2,179,000	—
	5,281,000	—
	$ 7,560,400	$ 7,798,574

Prior to 1974 the Company was in its income tax-exempt period which was formerly granted to new mines under the Income Tax Act. Income taxes in 1974 have been reduced by approximately $2,488,000 as a result of claiming in 1974 depreciation and amortization for tax purposes which were not claimed during the income tax exempt period.

Income taxes have been calculated in accordance with the proposals of the November 18, 1974 budget of the federal government which have effect from May 6, 1974.

The standard percentage depletion formerly allowed under the Income Tax Act terminated May 6, 1974. Instead, the Company is allowed to deduct earned depletion, which is based on $1 for every $3 of eligible capital and exploration expenditures made after November 7, 1969, up to 25% of production profits. At December 31, 1974, the earned depletion available to the Company is approximately $14,016,000 (1973 - $19,539,000).

4 — PROVINCIAL MINERAL ROYALTIES:

Royalties are payable to the British Columbia Government on all copper and molybdenum produced since January 1, 1974 which have been sold. There is a basic royalty of 2½% (increasing to 5% in 1975 and

subsequent years) on net smelter return less transportation costs and an incremental royalty of 50% of the amount by which net smelter return exceeds 120% of the basic value. The average net smelter return received in 1974 did not exceed 120% of the basic value.

5 — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate direct remuneration paid to the directors and senior officers was $153,110 (1973 - $136,305).

6 — SUBSEQUENT EVENT:

The Company will reduce production by 15% of 1974 levels in accordance with a request from Nippon Mining Company Limited, which has contracted to purchase all production of copper concentrate to December 31, 1981.

Auditors' Report

TO THE SHAREHOLDERS OF GIBRALTAR MINES LTD. (N.P.L.):

We have examined the balance sheet of Gibraltar Mines Ltd. (N.P.L.) as at December 31, 1974 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

Vancouver, B.C.
January 23, 1975.

Molybdenum is shipped to domestic and international markets in poly-lined steel drums.

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